

Message Text

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PAGE 01 LONDON 01164 01 OF 02 241744Z

46

ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CEA-01 CIAE-00

FRB-01 INR-07 IO-10 NEA-09 NSAE-00 RSC-01 OPIC-06

SP-02 TRSE-00 CIEP-02 LAB-04 SIL-01 OMB-01 STR-04

AGR-10 SS-15 NSC-05 L-02 H-02 PRS-01 PA-02 USIA-15

XMB-04 /140 W

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R 241732Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7601

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 01164

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JANUARY 24

BEGIN SUMMARY: THE FUNDAMENTAL ECONOMIC SITUATION REMAINS

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PAGE 02 LONDON 01164 01 OF 02 241744Z

GLOOMY WITH DEMAND CONTINUING TO WEAKEN AND UNEMPLOYMENT

APPARENTLY RISING. NEW ORDERS ARE FALLING OFF IN MAJOR INDUSTRIES AND INVESTMENT OUTLOOK FOR 1975 IS DISMAL, DUE PARTLY TO THE FINANCIAL SQUEEZE ON INDUSTRY. ON THE OTHER HAND, PRICES CONTINUE TO RISE REFLECTING WAGE ACCELERATION WHILE THE GOVERNMENT AND THE UNIONS BICKER OVER THE INTERPRETATION OF THE "SOCIAL CONTRACT" AND WHETHER IT IS WORKING. MONEY SUPPLY GROWTH MAY BE EXPANDING SLIGHTLY BUT IS STILL BELOW THE RATE OF INFLATION AND SO FAR GOVERNMENT FINANCING OF ITS LARGE DEFICIT HAS NOT SEEMED TO HAVE GREAT IMPACT ON THE GROWTH OF MONETARY AGGREGATES. INTEREST RATES ARE COMING DOWN SLOWLY, REFLECTING INCREASED MONETARY GROWTH AND FOLLOWING US RATES IN THEIR DESCENT. THE TERMS OF TRADE MOVED ONLY marginally AGAINST THE UK IN DECEMBER WITH TOTAL END OF YEAR FIGURES SHOWING A MUCH LARGER INCREASE IN EXPORT VOLUME COMPARED TO THE INCREASE IN IMPORT VOLUME. STERLING SHOWED STRENGTH VIS-A-VIS THE DOLLAR BUT WEAKENED AGAINST EUROPEAN CURRENCIES. END SUMMARY

1. UNEMPLOYMENT. OFFICIAL FIGURES ARE NOT YET AVAILABLE BECAUSE OF A STRIKE BUT AN "APPROXIMATE COUNT" INDICATED AN INCREASE IN THE RATE FROM 2.7 PERCENT IN NOVEMBER TO OVER 3 PERCENT THIS MONTH.

2. INVESTMENT. THE LATEST DEPARTMENT OF TRADE INVESTMENT SURVEY INDICATES A 7-10 PERCENT DECLINE IN MANUFACTURING INVESTMENT IN 1975 AND A CONTINUING DECLINE IN 1976. INVESTMENT IN SERVICES AND DISTRIBUTIVE INDUSTRIES IS ALSO LIKELY TO DECLINE.

3. NEW ORDERS. A NATIONAL ECONOMIC DEVELOPMENT OFFICE REPORT INDICATES A GENERAL FALL-OFF IN NEW ORDERS IN THE HEAVY MACHINERY INDUSTRY.

4. PROFITS. TRADING PROFITS WERE 1.5 BILLION POUNDS IN THE 3RD QUARTER, UP FROM 940 MILLION POUNDS AVERAGE IN THE FIRST TWO. INVENTORY VALUATION ADJUSTMENT WAS 820 MILLION POUNDS AFTER AVERAGING 1.5 BILLION POUNDS IN THE FIRST TWO. THE COMPANY SECTOR SHOWED A 1.3 BILLION POUND FINANCIAL DEFICIT IN THE 3RD QUARTER, LESS THAN THE SECOND. UNCLASSIFIED

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PAGE 03 LONDON 01164 01 OF 02 241744Z

PRICE COMMISSION FIGURES INDICATE PROFIT MARGINS AS A PROPORTION OF REFERENCE LEVELS FELL SUBSTANTIALY IN THE 3RD QUARTER.

5. PRICES. THE RETAIL PRICE INDEX ROSE 1.5 PERCENT IN DECEMBER AND 19.1 PERCENT ON THE YEAR. DECEMBER-224.2, NOVEMBER-220.9 (JANUARY 1962 EQUALS 100).

6. WAGES. BASIC WEEKLY WAGE RATES UP BY 2.2 PERCENT IN DECEMBER. INDEX 152.6 TO 156.0 (1972 EQUALS 100). OVER YEAR INDEX ROSE BY 28.5 PERCENT.

7. EARNINGS. INDEX OF EARNINGS ROSE 4.6 PERCENT IN NOVEMBER AND 25.3 PERCENT OVER YEAR.

8. MONEY SUPPLY. M1 ROSE BY 1.1 PERCENT NOVEMBER 20 TO DECEMBER 11. UP FROM 0.8 PERCENT RISE IN PRECEEDING PERIOD. M3 ROSE 0.7 PERCENT IN THIS PERIOD, AFTER 1.2 PERCENT INCREASE IN PREVIOUS PERIOD. IN LAST 3 MONTHS, M1 ROSE 4 PERCENT, M3 ROSE 2.5 PERCENT.

9. PUBLIC FINANCE. MASSIVE SALES OF GOVERNMENT SECURITIES (GILTS) HAVE AIDED THE GOVERNMENT TO FINANCE ITS LARGE

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PAGE 01 LONDON 01164 02 OF 02 241746Z

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XMB-04 /140 W

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R 241732Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7602

INFO AMEMBASSY BERN

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UNCLAS SECTION 02 OF 02 LONDON 01164

DEFICIT WITHOUT UNDUE PRESSURE ON THE MONEY SUPPLY. OVER 600 MILLION POUNDS IN GILTS HAVE BEEN SOLD IN THE LAST MONTH. THE BANKS ARE LARGE BUYERS, BUT THE PRESS REPORTS THAT OIL PRODUCING COUNTRIES ARE ALSO LARGE PURCHASERS.

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PAGE 02 LONDON 01164 02 OF 02 241746Z

10. BANK RATES. THE BASE LENDING RATE OF THE MAJOR COMMERCIAL BANKS WAS REDUCED FROM 12 TO 11.5 PERCENT AND DEPOSIT RATES ALSO CAME DOWN.

11. TERMS OF TRADE. THE UK TERMS OF TRADE WERE marginally LOWER IN DECEMBER AS COMPARED TO THE NOVEMBER FIGURE. FOR THE YEAR 1974, PROVISIONAL ESTIMATES SHOW A 7.3 PERCENT INCREASE IN THE VOLUME OF EXPORTS AND A 1.2 PERCENT INCREASE IN THE VOLUME OF IMPORTS. IN VALUE TERMS, HOWEVER, THE UNIT VALUE OF IMPORTS ROSE 55 PERCENT (34 PERCENT EXCLUDING FUELS) WHILE THE UNIT VALUE OF EXPORTS ROSE 29 PERCENT.

IMPORT AND EXPORT UNIT VALUE

1970 EQUALS 100

	IMPORTS	EXPORTS	TERMS OF TRADE
1974 I	194.5	146.6	75.3
II	218.3	159.1	72.9
III	223.3	167.4	75.0
IV	230.0	174.9	76.0
NOVEMBER	229.0	174.9	76.4
DECEMBER	234.0	178.1	76.L

NOTE: FIGURES FOR 4TH QUARTER, INCL. NOV. AND DEC. ARE PROVISIONAL.

12. EXCHANGE RATES AND GOLD:

	1/16	1/23	CHANGE
EXCHANGE RATE	\$2.3535	\$2.3810	UP 0.0275
EFFECTIVE DEPRECIATION			
(PERCENT)	21.6	21.7	DOWN 0.1
GOLD	\$175.75	\$174.50	DOWN \$1.25

13. FOREARD DISCOUNT ON STERLING:

	1/16	1/23	CHANGE
1 MONTH	0.75	0.95	UP 0.20
3 MONTHS	2.68	2.95	UP 0.27
6 MONTHS	5.87	5.77	DOWN 0.10

(ALL FIGURES IN CENTS)

14. EURODOLLAR INTEREST RATES:

	1/16	1/23	CHANGE
1 MONTH	7-7/8	7	DOWN 7/8

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PAGE 03 LONDON 01164 02 OF 02 241746Z

3 MONTHS	8-5/8	8	DOWN 5/8
6 MONTHS	8-5/8	8	DOWN 5/8

15. LOCAL AUTHORITY DEPOSIT RATES:

	1/16	1/23	CHANGE
1 MONTH	10-3/4	11-3/8	UP 5/8
3 MONTHS	11-5/8	12	UP 3/8
6 MONTHS	11-1/2	12-5/16	UP 13/16

16. THE MINIMUM LENDING RATE WAS REDUCED AN ADDITIONAL 1/4 PERCENT FOR THE SECOND CONSECUTIVE WEEK TO 11 PERCENT ON FRIDAY, JANUARY 24, 1975.

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Message Attributes

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Decaption Note:
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Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
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